Sub

PACIFIC WESTERN AIRLINES

Twenty-Fourth Annual Report 1970

PACIFIC WESTERN AIRLINES

DIRECTORS

B. C. SAMIS
Chairman of the Board
President, Samis & Co. Ltd.,
Investment Dealers,
Vancouver, Canada

W. J. BORRIE
Director
Chairman, Pemberton Securities Ltd.,
Vancouver, Canada

C. W. BRAZIER, Q.C.
Director
Partner, Davis & Company,
Barristers & Solicitors,
Vancouver, Canada

J. D. HAGAR
Director
Investment Dealer (Retired),
Duncan, B.C., Canada

D. N. WATSON
Director
President, Pacific Western Airlines Ltd.,
Vancouver, Canada

OFFICERS

D. N. WATSON
President

W. R. HARRIS
Vice-President & General Manager

R. T. EYTON
Vice-President, Northern Region

D. F. GRANGER
Vice-President, Finance, and Secretary

R. L. LAKE
Vice-President, Technical Services

J. B. McGUIRE
Vice-President, Marketing and Customer Services

J. C. S. MILES
Vice-President, Operations

A. J. MOUL
Vice-President, Cargo and Contracts

HEAD OFFICE

Vancouver Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.
Victoria, B.C.
Edmonton, Alta.
Regina, Sask.
Winnipeg, Man.
Toronto, Ont.
Montreal, Que.

BANKERS

Canadian Imperial Bank
of Commerce
Vancouver, B.C.

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

SHARES LISTED

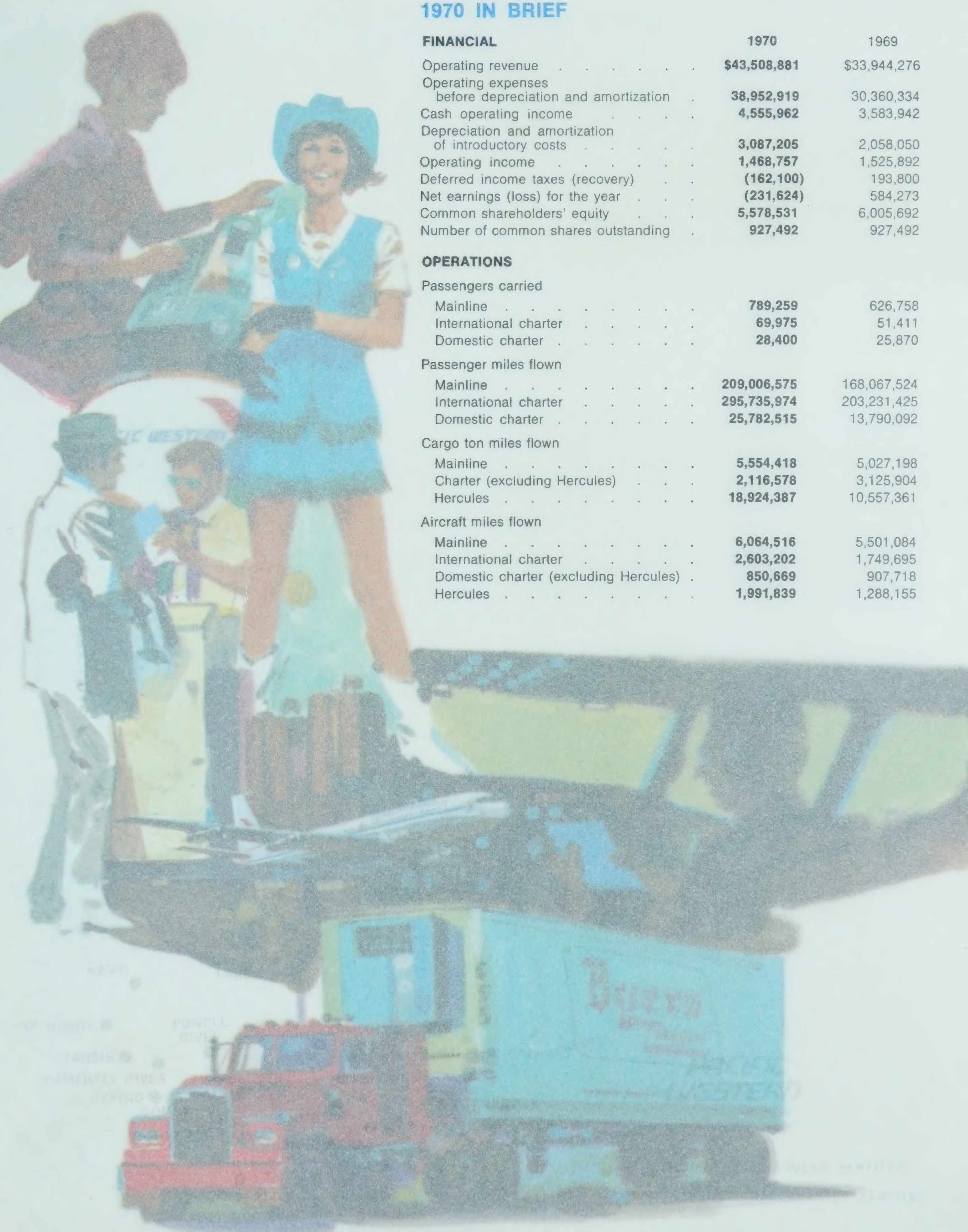
Vancouver Stock Exchange

SUBSIDIARY COMPANIES
(Wholly Owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Queen Charlotte Airlines Ltd.
Silver Wings Aviation Ltd.
Byers Transport Limited
B.C. Air Lines Limited

1970 IN BRIEF

FINANCIAL	1970	1969
Operating revenue	**$43,508,881**	$33,944,276
Operating expenses before depreciation and amortization	**38,952,919**	30,360,334
Cash operating income	**4,555,962**	3,583,942
Depreciation and amortization of introductory costs	**3,087,205**	2,058,050
Operating income	**1,468,757**	1,525,892
Deferred income taxes (recovery)	**(162,100)**	193,800
Net earnings (loss) for the year	**(231,624)**	584,273
Common shareholders' equity	**5,578,531**	6,005,692
Number of common shares outstanding	**927,492**	927,492
OPERATIONS		
Passengers carried		
Mainline	**789,259**	626,758
International charter	**69,975**	51,411
Domestic charter	**28,400**	25,870
Passenger miles flown		
Mainline	**209,006,575**	168,067,524
International charter	**295,735,974**	203,231,425
Domestic charter	**25,782,515**	13,790,092
Cargo ton miles flown		
Mainline	**5,554,418**	5,027,198
Charter (excluding Hercules)	**2,116,578**	3,125,904
Hercules	**18,924,387**	10,557,361
Aircraft miles flown		
Mainline	**6,064,516**	5,501,084
International charter	**2,603,202**	1,749,695
Domestic charter (excluding Hercules)	**850,669**	907,718
Hercules	**1,991,839**	1,288,155




Byers
Transport

TO THE SHAREHOLDERS:

The unsettled conditions of the general economy in 1970 had its effect on your company's operations, as it did on other industry, resulting in disappointing financial results for the year. On the other hand, the increased operational capability and broadened market base of your company's activities combined to produce record accommodation for 887,634 revenue passengers; 105,011,413 pounds of air cargo; 125,000,000 pounds of cargo by truck; and to generate total revenues of $43,509,000.

OPERATIONS

Mainline and other domestic services continue to produce the largest part of total revenues (78%) and continue to be an area of prime responsibility in the company's operations and planning. Because of the lead time involved in obtaining new equipment, and the need to accommodate future growth and normal peaks in travel demand, some surplus capacity must be maintained. It is then desirable to utilize such excess capacity in other revenue activities, on the specific days or periods of time it is available. In pursuit of this goal, Pacific Western aircraft in 1970 crossed every ocean and operated in every continent of the world.

The depressed economic conditions; work stoppages in British Columbia; and the temporary slow-down in exploration and development because of uncertainties in the outcome of proposed government tax and related legislation, had a detrimental effect on all 1970 operations and on 1970 results.

MAINLINE revenues nevertheless increased by 31% in 1970 as compared with 1969, with most of the growth taking place on routes being operated at the beginning of 1970.

During the year, two major route changes took place. In August, the purchase of B.C. Air Lines was concluded. The planned immediate integration of their services with ours, which would have produced economies as a result of consolidation and elimination of duplicated facilities, was temporarily thwarted. An injunction of the British Columbia Supreme Court against the company, applied for by some employee groups of B.C. Air Lines, prevented such integration until your company's appeal against the injunction was heard, more than three months later, and unanimously granted. Finally on September 28, after approval of United States and Canadian Governments, your company assumed the Victoria, B.C. - Seattle, Washington route formerly operated by Air Canada. Four flights a day (three in winter), together with four daily Victoria-Vancouver flights, are operated with Convair 640 jet-prop equipment. The trans-border portions of the Vancouver-Victoria-Seattle route are now exclusively operated by Pacific Western, while Air Canada continues to provide additional Vancouver to Victoria frequencies.

It is significant that by May 1, 1971, all of these additional services will be operated with the addition to the aircraft fleet of only one Convair 640 aircraft (delivery September, 1971).

The four Nord 262 aircraft leased by B.C. Air Lines are being returned on the termination of their lease in April.

The development of truck/air services and of containerization of cargo continued during the year. Containerized cargo requires much less handling, allows faster turn-around of equipment, and reduces the possibility of damage in handling and transit. Accordingly, some concessions have been made in rates for such cargo, in turn generating more volume.

INTERNATIONAL passenger charter services during 1970, utilizing two Boeing 707 aircraft, produced


PACIFIC WESTERN

$7,962,000 in revenue, which represents a 46% increase as compared with revenues generated by 1969's one aircraft operation. The second aircraft was leased late in 1969 on a "pay-when-used" basis. While high peak season (May-August) utilization was achieved on both aircraft, work available in the remaining eight months of the year did not justify retention of the leased aircraft beyond last September.

While International passenger operations were profitable in 1970, extreme competition in this market forced lower than desirable price levels. Filing, by carriers generally, of increased rates in spring 1971 will produce an improved return in the latter part of the year.

In addition to the extensive Western Canada-Europe charter operation in the summer months, five charter groups were flown to Osaka, Japan, in connection with Expo '70. Also late in the year two Boeing 707 charters were operated to Hong Kong carrying wig-making materials (trucked from the Eastern United States to Vancouver) on the westbound trip, and manufactured wigs from Hong Kong on the eastbound trip.

The 1970/71 winter inclusive tour program to Puerto Vallarta has been extremely popular, while the Hawaiian program has experienced some buyer resistance. Several new holiday destinations are presently under study for the 1971/72 winter holiday program.

HERCULES operations in early 1970 fell below expectations because of the temporary cut-back in northern exploration activity, and because of unseasonably warm weather conditions in the Arctic, which caused deterioration of airstrips and created excessive fog conditions. Because of the limited domestic demand for the specialized capabilities of the Hercules following spring break-up in the North, one Hercules was then dispatched overseas and a second for part of the summer. A variety of contracts were undertaken culminating in a series of charters that returned the aircraft to Canada on a paid basis on an around-the-world routing. Overseas revenues in 1970 contributed $800,000 to the total Hercules revenue of $7,000,000 for the year.

Overseas contacts established in previous years, and your company's proven capability around the world, indicate an increased volume of overseas work for 1971. The very beneficial effect is to level out the Hercules work load through the year as compared with the peaks and valleys in demand of a wholly domestic operation.

DOMESTIC CHARTER operations were highlighted with the Royal Tour of the Northwest Territories in July. A Pacific Western Boeing 737 was luxuriously outfitted with a specially designed executive interior, generously loaned to the company for the purpose by the Boeing Co. HRH Queen Elizabeth, HRH Prince Phillip, HRH Princess Anne and HRH the Prince of Wales were carried on different legs of their journeys between several points on their tour of the Northwest Territories — in its Centennial year. This is the fourth time that Pacific Western has had the honour of transporting members of the Royal Family.

With the advent of the National Hockey League in Western Canada, through the medium of the Vancouver Canucks, your company carried charter loads of fans from Calgary and Edmonton to some twenty of the Vancouver games.

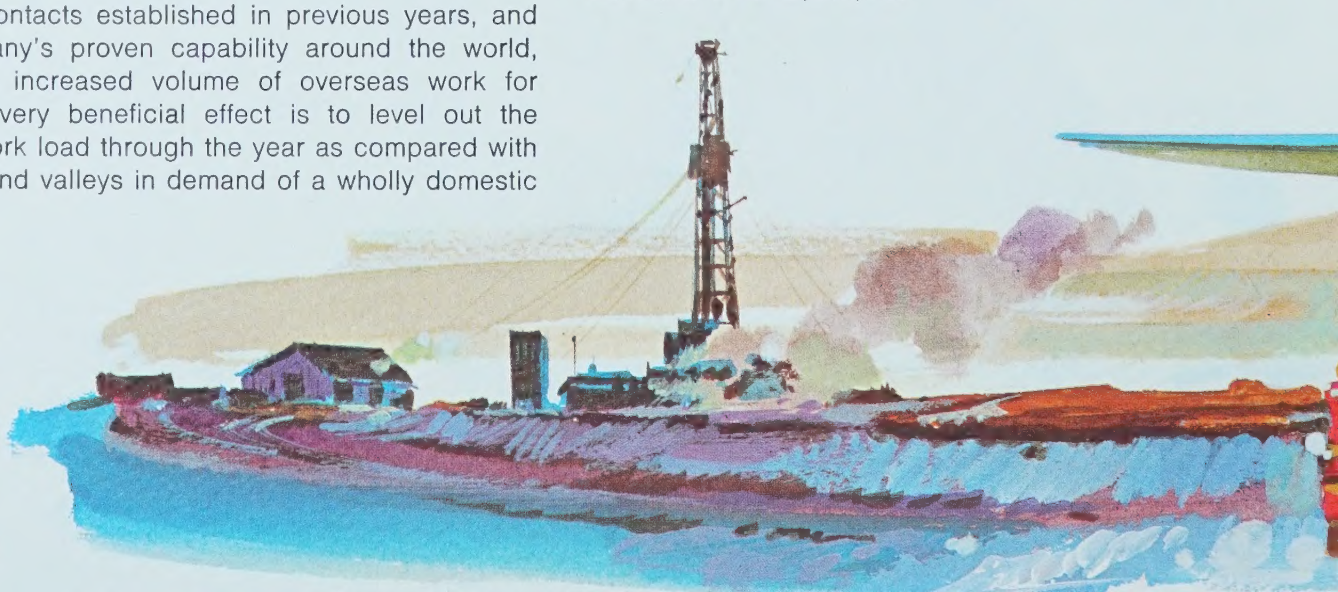
The special requirements of the oil industry in the far North led to a series of charter flights utilizing the company's DC6AB aircraft in a mixed configuration. Oil well crews, under their contracts, are rotated at regular intervals from the wellsite to their homes, so that the replacement crew, together with camp and other supplies, would travel on the northbound leg of the charter and the crew coming out on leave on the southbound.

Byers Transport Limited

Trucking operations conducted by our subsidiary, Byers Transport Limited, were somewhat affected by the general conditions of 1970, and volume of freight handled was 11% less than in 1969. Terminal services for others, including ground handling services for Pacific Western at Hay River and Yellowknife, maintained 1969 levels, and operating cash gain from Byers activities more than doubled as compared with 1969, to $136,000.

FINANCIAL

The record level of consolidated operating revenues for 1970 represents an increase of $9,565,000, or 28 per cent, compared with 1969. Mainline revenues accounted for $5,519,000 of the increase, and charter revenues accounted for $3,649,000.

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Operating income before depreciation and amortization increased by $972,000, or 27 per cent, to $4,556,000. While this was a substantial gain it did not compensate for the higher interest and depreciation related to new equipment. As a result, after provision for deferred income taxes, earnings before extraordinary items declined $307,000 for a loss before disposal of equipment of $163,000. Disposal of equipment produced a loss of $69,000 compared with a $440,000 gain in 1969, leaving the net loss for the year at $231,624 compared with $584,273 earnings in 1969.

Funds provided by operations, disposal of equipment and bank loan, amounted to $4,895,000 which enabled the company to reduce its long-term debt $2,861,000. In addition, fixed asset purchases, together with acquisition of B.C. Air Lines Limited, represented a $2,979,000 charge to working capital resulting in a decline in working capital of $1,314,000.

Early in 1971 the company concluded negotiations with General Dynamics Corporation to refinance over a period of four years the balance of the indebtedness which would otherwise be outstanding at June 30, 1971. Other steps will be taken during 1971 to improve the company's working capital position.

PERSONNEL

Personnel relations during the year continued to be harmonious. The co-operation and dedication of all employees in making possible the record levels of production in 1970 cannot be overemphasized. While revenues increased by 28%, the total number of employees increased by only 9%. Total number of employees at December 31 was 1,341.

Agreement with flight attendants was amicably reached in 1970, for a one-year term. At year end, negotiations with the navigator group were still under way because of the difficulty of getting together due to the navigators' work commitments on off-shore flights of the Boeing 707 and Hercules fleet. This agreement was settled early in the new year.

On October 2, 1970, the resignation of R. H. Laidman, after 19 years of association with the company, was accepted by the Board with regret. Mr. Laidman had served the company in several management positions and had been President since 1962. During this time the company had expanded significantly and had successfully made the transition into the jet age.

On October 5, your company's Board appointed D. N. Watson as President of the company, and as a Director. Mr. Watson first joined the company in 1958 and held the position of Vice-President, Management and Technical Services at the time of his new appointment.

THE FORTHCOMING YEAR

Your company's routes and aircraft serve the resource rich areas of Western Canada, and in many cases provide the only constant and year-round form of transportation. The largest cities and communities of British Columbia, Alberta and the Northwest Territories are now served by Pacific Western — and they are growing, on average, at higher rates than in any other area of Canada.

Your company's routes have good growth potential. In proof of the fact, mainline revenues in the first two months of 1971 have exceeded those of the previous year by 42%, which represents a substantial traffic increase even after discounting the effect of revenues derived from the new route acquisitions of late 1970. An integrated marketing plan has been developed for the year which will concentrate effort on attracting new traffic, particularly in the leisure travel area.

At the same time, intense attention is being paid to controlling costs in all areas where it is possible to do so, while still maintaining high service and performance standards and taking advantage of all profitable revenue possibilities.

Transportation is one of the first industries to be affected by changing trends in the economy. The continuing high level of activity in Pacific Western's operations so far in 1971, at a normally slack period, would seem to confirm the projections of many that an upswing in the Canadian economy, particularly in the West and North, can be anticipated during 1971.

Higher utilization and better load factors for 1971 will accompany the higher forecast volume of activity, in that it will be handled with the existing aircraft fleet, and relatively the same employee complement. Accordingly, improved productivity and improved results are anticipated for the year.

Respectfully submitted,

B. C. SAMIS, *Chairman of the Board*

D. N. WATSON, *President*


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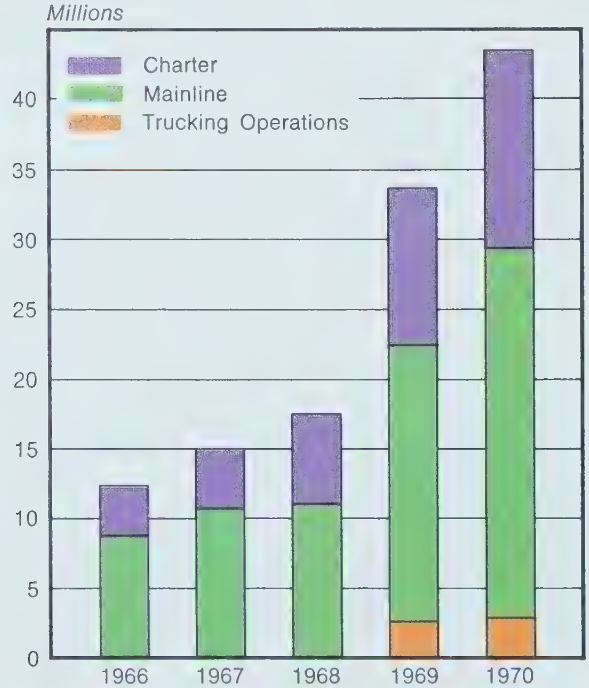
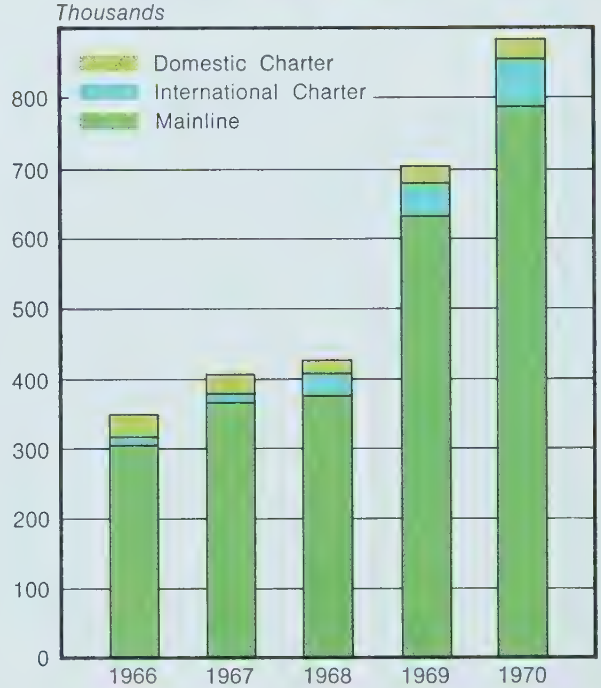
PROGRESS

1966/1970 (Yearly totals as at December 31)

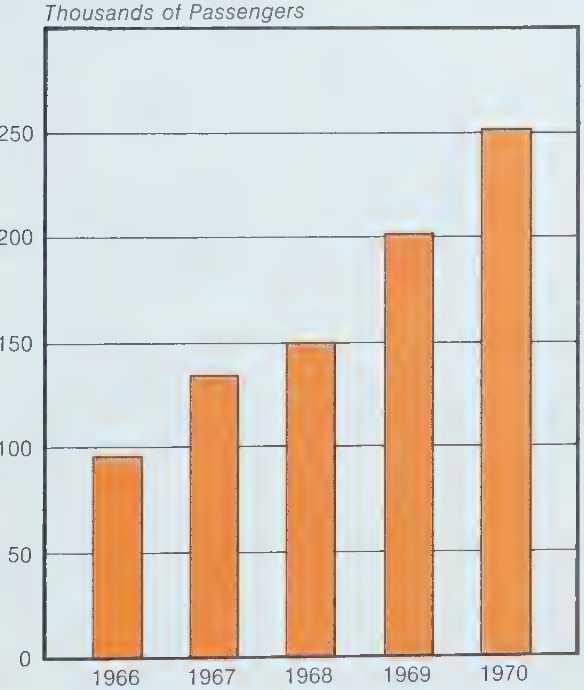
REVENUE:
Millions



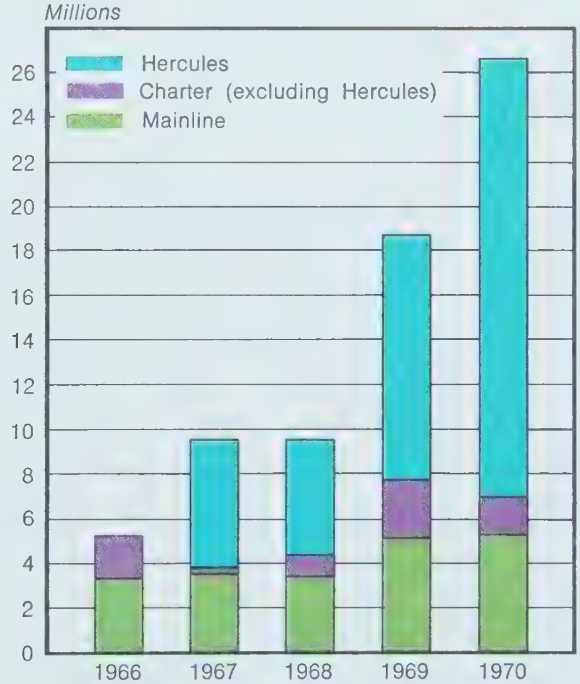
PASSENGERS CARRIED:
Thousands



CHIEFTAIN AIRBUS:
Thousands of Passengers



CARGO TON MILES:
Millions



PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

December 31, 1970 (with comparative figures for 1969 — as restated Note 3)

ASSETS	1970	1969
Current assets:		
Cash	$ 99,974	$ 35,712
Cash held in trust for International Charter deposits	226,190	429,333
Accounts receivable:		
Trade	4,681,809	3,240,720
Aircraft financing	46,948	741,344
Insurance claims	42,963	560,250
Other	540,888	338,095
Refundable deposits on new equipment	99,738	1,186,269
Inventory of parts, material and supplies, at the lower of cost or net realizable value	1,311,596	1,098,997
Prepaid insurance and other expenses	883,757	1,069,070
Total current assets	7,933,863	8,699,790
Rental deposits on leased flight equipment	1,785,706	1,812,813
Investments:		
Shares of Northward Aviation Ltd., at cost	103,665	100,000
Other, at cost	124,378	61,049
Total investments	228,043	161,049
Property and equipment, at cost, less depreciation (Note 3):		
Flight equipment	24,931,903	23,337,042
Buildings on leased land and ground facilities	5,576,921	4,829,473
	30,508,824	28,166,515
Less accumulated depreciation and provision for overhauls	9,048,095	6,432,278
Property and equipment, net	21,460,729	21,734,237
Deferred charges, less amortization:		
Introductory costs of new aircraft and services (Note 4)	1,605,809	1,955,814
Debt financing expenses	136,878	191,686
Total deferred charges	1,742,687	2,147,500
Excess of cost of investments in subsidiary companies over their net book value at time of acquisition and goodwill	2,596,746	1,323,224
	$35,747,774	$35,878,613

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	**1970**	1969
Current liabilities:		
Bank indebtedness, secured by a general assignment of accounts receivable	**$ 305,000**	$ 314,587
Accounts payable and accrued expenses	**6,514,730**	5,874,986
Payments on long-term debt due within one year (Note 5)	**1,920,668**	1,901,101
Unearned transportation revenue:		
Domestic	**190,063**	105,000
International	**228,696**	415,446
Total current liabilities	**9,159,157**	8,611,120
Long-term debt, less amount included in current liabilities (Note 5)	**18,932,136**	19,190,251
Deferred income taxes (Note 6)	**1,019,000**	1,012,600
Shareholders' equity (Notes 5 to 8):		
Share capital	**3,036,576**	3,036,576
Retained earnings, per accompanying statement	**3,600,905**	4,028,066
Total shareholders' equity	**6,637,481**	7,064,642

Commitments (Note 10).

On behalf of the Board:

B. C. SAMIS, Director

D. N. WATSON, Director

	$35,747,774	$35,878,613

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1970 (with comparative figures for 1969 — as restated Note 3)

	1970	1969
Operating revenues:		
Mainline:		
Passenger	**$19,662,825**	$14,736,773
Cargo	**2,768,063**	2,212,859
Mail	**1,065,378**	1,027,963
Total mainline	**23,496,266**	17,977,595
Charter	**17,045,566**	13,396,849
Trucking operations	**2,846,811**	2,500,331
Other revenue, net	**120,238**	69,501
Total operating revenues	**43,508,881**	33,944,276
Operating expenses:		
Flying operations	**15,916,670**	12,131,006
Maintenance (Note 3)	**5,829,619**	5,116,683
Aircraft and traffic servicing	**7,273,624**	5,469,632
Passenger service	**2,255,829**	1,730,150
Trucking operations	**2,490,675**	2,123,644
Selling and advertising	**2,471,394**	1,750,935
General and administrative	**2,715,108**	2,038,284
Total operating expenses	**38,952,919**	30,360,334
Operating income before depreciation and amortization	**4,555,962**	3,583,942
Depreciation (Note 3)	**2,435,169**	1,625,534
Amortization of introductory costs (Note 4)	**652,036**	432,516
	3,087,205	2,058,050
Operating income	**1,468,757**	1,525,892
Interest and amortization of financing expenses on long-term debt	**2,104,475**	1,482,044
Less:		
Other interest, net	**199,061**	294,283
Foreign exchange gain	**111,930**	—
	1,793,484	1,187,761
Earnings (loss) before income taxes	**(324,727)**	338,131
Deferred income taxes (Note 6)	**(162,100)**	193,800
Earnings (loss) before gain (loss) on disposal of equipment	**(162,627)**	144,331
Gain (loss) on disposal of equipment, net of deferred income taxes thereon (Note 6)	**(68,997)**	439,942
Net earnings (loss) for the year	**$ (231,624)**	$ 584,273
Earnings (loss) per common share (Note 9):		
Earnings (loss) before gain (loss) on disposal of equipment	**$(.24)**	$.09
Net earnings (loss) for the year	**$(.32)**	$.57

See accompanying notes to consolidated financial statements.

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1970 (with comparative figures for 1969 — as restated Note 3)

	1970	1969
Balance at beginning of year:		
As previously reported	**$4,028,066**	$3,480,901
Prior years' adjustments:		
Provision for overhaul (Note 3)	**—**	26,429
Deferred income taxes (Note 6)	**(132,000)**	—
As restated	**3,896,066**	3,507,330
Net earnings (loss) for the year	**(231,624)**	584,273
	3,664,442	4,091,603
Dividends paid:		
First preferred shares	**55,500**	55,500
Second preferred shares	**8,037**	8,037
	63,537	63,537
Balance at end of year	**$3,600,905**	$4,028,066

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1970 (with comparative figures for 1969 — as restated Note 3)

	1970	1969
Funds provided by:		
Operations:		
Net earnings (loss) for the year	**$ (231,624)**	$ 584,273
Add charges not requiring cash expenditure	**3,806,681**	1,850,955
Funds provided by operations	**3,575,057**	2,435,228
Disposal of equipment	**315,621**	4,887,059
Bank term loan	**700,000**	1,000,000
Other	**304,201**	(333,306)
Total funds provided	**4,894,879**	7,988,981
Funds applied to:		
Purchase of equipment	**2,822,246**	13,650,337
Less amount financed through long-term debt	**726,703**	10,780,864
	2,095,543	2,869,473
Reduction of long-term debt (not including reduction of $247,000 in 1969 on conversion of debentures into common shares)	**2,861,128**	3,821,084
Introductory costs of new aircraft and services	**305,109**	863,513
Purchase of subsidiary companies, net of shares and debentures issued and including working capital deficiency of $683,526 (1969 — $67,079)	**883,526**	376,193
Dividends on preferred shares	**63,537**	63,537
Total funds applied	**6,208,843**	7,993,800
Decrease in working capital	**1,313,964**	4,819
Working capital at beginning of year	**88,670**	93,489
Working capital (deficiency) at end of year	**$(1,225,294)**	$ 88,670

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

1. PRINCIPLES OF CONSOLIDATION:

The consolidated balance sheet includes the assets and liabilities of the company and all of its subsidiaries.

The consolidated statements of earnings and retained earnings include the results of operations of the company and all its subsidiaries for the year ended December 31, 1970, except that the results of operations of B.C. Air Lines Limited are included only for the period from date of acquisition, August 12, 1970, to December 31, 1970.

2. CONVERSION OF FOREIGN CURRENCIES:

Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1970. Long-term debt payable in U.S. funds, other than the amount due within one year, has been converted at rates prevailing at the time the debt was incurred.

3. PROPERTY AND EQUIPMENT:

Fixed assets, with the exception of aircraft spare parts, are depreciated on a straight-line basis at varying rates dependent upon their estimated useful life with appropriate provision for residual values. Depreciation on aircraft spare parts is calculated by depreciating the net book value less a residual value of 15% of cost at an annual rate of 12½%.

Provision for airframe and engine overhaul costs is made by an hourly overhaul charge. The method of calculating the hourly overhaul charge for engines of Boeing 707 and 737 aircraft was retroactively changed during the year. This change resulted in reductions in the overhaul charges of $140,000 in 1970, $123,302 in 1969 and $54,429 in 1968. These adjustments after allowance for deferred income taxes had the effect of decreasing the 1970 loss by $72,000 and increasing the net earnings of 1969 and 1968 by $59,902 and $26,429, respectively. The 1969 figures, shown for comparative purposes, have been restated to reflect this retroactive change.

4. INTRODUCTORY COSTS OF NEW AIRCRAFT AND SERVICES:

Initial flight crew training expenses and pre-operating costs of the Convair 640, Lockheed Hercules and Boeing 707 and 737 aircraft and pre-operating costs of new routes and services have been deferred. These costs are being amortized on a straight-line basis over five years.

5. LONG-TERM DEBT:

Parent company:	Total	Due within one year	Non-current
7% Convertible Sinking Fund Debentures Series AA due June 1, 1982; with an annual sinking fund requirement of $41,000 in 1971, and $280,000 from 1972 through 1981 and the balance in 1982	$ 3,132,000	41,000	3,091,000
Agreements payable for Convair 640 aircraft and spare parts of $2,551,207 U.S., secured by 8% debentures. Payable in quarterly instalments to March 31, 1972 on which date a final payment of $1,735,387 U.S. will be due (presently being renegotiated). The liability for the long-term portion of this debt at the current rate of exchange is $126,000 less than the amount recorded in the company's accounts	2,708,657	825,762	1,882,895
12% Mortgage payable for Boeing 737 aircraft. Payable at $55,815 monthly, including interest, to April 1981	4,286,704	164,059	4,122,645
14% Mortgage payable for Hercules 382 aircraft. Payable at $71,420 monthly, including interest, to December 1974. Balance renewable for another 5 years at the interest rates prevailing at that time	4,372,701	261,243	4,111,458
Bank loan, due June 15, 1972, secured by general assignment of accounts receivable	2,700,000	—	2,700,000
Lease purchase obligations on various flight equipment payable by monthly instalments including interest, at various dates up to January 1975	1,926,103	362,021	1,564,082
7% Notes payable, secured by a debenture on the assets of B.C. Air Lines Limited, payable in four annual instalments of $250,000 commencing August 1972	1,000,000	—	1,000,000
Other agreements, payable at various dates	162,738	80,036	82,702
Total parent company	20,288,903	1,734,121	18,554,782
Subsidiary company:			
7% Debenture payable over 5 years	360,000	90,000	270,000
Finance contracts payable at various dates, net of deferred finance charges	148,696	78,799	69,897
Other mortgages and notes, payable at various dates	55,205	17,748	37,457
Total subsidiary company	563,901	186,547	377,354
	$20,852,804	1,920,668	18,932,136

Among other provisions, the trust indentures of the Series AA debentures and the debentures securing the agreements payable for Convair 640 aircraft contain restrictions on the payment of dividends on the common shares of the company. Under these restrictions, no such dividends can be paid unless the working capital after the payment of such dividends is at least the greater of $750,000 or 6% of the operating expenses, as defined.

6. DEFERRED INCOME TAXES:

Effective January 1, 1968, in accordance with a recommendation of the Canadian Institute of Chartered Accountants the company decided to adopt the policy of charging to earnings the deferred taxes which arise from claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts and from certain deferred charges which may be claimed for tax purposes. The prior years' adjustment for deferred income taxes of $132,000 is the portion of the deferred tax recovery for the year ended December 31, 1970 which pertains to accumulated deferred taxes relating to periods prior to 1968 which have not been recorded in the company's accounts. The balance of accumulated deferred taxes not recorded at December 31, 1970 is $1,815,000.

7. SHARE CAPITAL:

6% cumulative redeemable sinking fund first preferred shares of $10 par value per share. Authorized 100,000 shares; issued 92,500 shares	$ 925,000
6% cumulative redeemable sinking fund second preferred shares of $10 par value per share. Authorized 15,895 shares; issued 13,395 shares	133,950
	1,058,950
Common shares of no par value. Authorized 1,500,000 shares; issued 927,492 shares	1,977,626
	$ 3,036,576

The preferred shares, first and second issues, are redeemable at $10.50 per share and $10 per share, respectively. The terms of issue, as amended, provide for an annual sinking fund provision of 30% of the annual consolidated net earnings (maximum $100,000 save as the directors may determine) so long as the consolidated net current assets, as defined, would not be reduced to less than $150,000.

The terms of issue of the first preferred shares restrict the payment of dividends on the second preferred shares or common shares when the consolidated net current assets, as defined, are less than $150,000. There is a similar restriction under the terms of issue of the second preferred shares relating to the payment of dividends on the common shares.

Dividends on the first and second preferred shares have been paid to December 1, 1970. If the company failed to pay in the aggregate four quarterly dividends on the first preferred shares, then so long as any dividends remain in arrear, the holders of the first and second preferred shares would be exclusively entitled to vote at all general meetings of the company.

The holders of the 7% Convertible Sinking Fund Debentures Series AA are entitled to convert each $1,000 debenture into 70 common shares if converted on or before June 1, 1972 and into 50 common shares if converted after June 1, 1972 and on or before June 1, 1977 when the conversion privilege expires. At December 31, 1970, the number of common shares reserved for the conversion of the Series AA debentures was 219,240 shares which was the maximum number required for such conversion at that date.

8. STOCK OPTIONS:

Certain company officers have the option to purchase at $14.85 per share, a total of 18,000 common shares. These options may be exercised to a maximum of 6,000 shares in each of the periods ending February 1, 1971, February 1, 1972 and June 1, 1972. CAE Industries Ltd. as part of the consideration for the purchase of B.C. Air Lines Limited has an option to purchase 30,000 common shares exercisable at $14.30 per share until May 31, 1972 and thereafter to expiry, August 11, 1975, at $20.00 per share.

9. EARNINGS (LOSS) PER COMMON SHARE:

The per share figures have been computed by dividing the net earnings or loss, after payment of preferred share dividends, by the weighted average number of common shares outstanding during each year. The common share equivalent of the Series AA 7% Convertible Sinking Fund Debentures and the stock options has not been recognized in the current year's computation since the effect is to reduce the loss per common share.

10. COMMITMENTS AND EVENTS SUBSEQUENT TO DECEMBER 31, 1970:

The company and its subsidiaries are obligated for aggregate basic annual rentals of approximately $3,800,000 under lease agreements expiring subsequent to December 31, 1975, at which time rentals will diminish according to various expiry dates until 1982.

The company has served notice that it will return to their owner four Nord aircraft at various dates between March 19 and April 21, 1971. Purchase for delivery in September 1971 of a Convair 640 aircraft costing approximately $850,000 to be financed over a period of five years is being negotiated. Subsequent to the year end, two Lockheed Electra aircraft have been leased for a period of two years at a monthly rental of $15,000 U.S. each.

The company is negotiating with General Dynamics Corporation to refinance the balance of the indebtedness which will be outstanding at June 30, 1971 over a period of four years from that date.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration of directors, senior officers and certain technical personnel of the company, as defined by the B.C. Securities Act, amounted to $304,992 for the year 1970, of which $2,000 represents directors' fees paid in 1970.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in providing for overhaul costs on certain engines as described in Note 3 of the notes to consolidated financial statements.

Vancouver, British Columbia
February 25, 1971

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

10 YEAR SUMMARY

(all figures in thousands)

FINANCIAL STATISTICS	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Mainline revenue	**$23,496**	$17,978	$11,082	$10,308	$ 8,583	$ 7,133	$5,563	$4,285	$3,977	$3,985
Contract and charter revenue										
Multi-engine aircraft (excluding International and Hercules)	**2,065**	2,337	919	1,097	1,021	827	662	663	418	372
International - passenger	**7,962**	5,463	3,747	1,548	1,813	1,870	1,338	—	—	—
Hercules - cargo	**7,019**	5,597	1,823	1,425	—	—	—	—	—	—
Single-engine aircraft	**—**	—	47	556	782	1,675	1,279	1,284	1,201	1,397
Trucking operations	**2,847**	2,500	—	—	—	—	—	—	—	—
Other revenue	**120**	69	41	40	81	32	28	59	18	92
	$43,509	$33,944	$17,659	$14,974	$12,280	$11,537	$8,870	$6,291	$5,614	$5,846
DEW line revenue	**—**	—	—	—	—	—	—	—	—	667
Government subsidy	**—**	—	—	—	—	—	—	—	284	283
Total revenue	**$43,509**	$33,944	$17,659	$14,974	$12,280	$11,537	$8,870	$6,291	$5,898	$6,796
Funds provided by operations	**3,575**	2,435	2,054	2,184	1,606	1,041	691	457	218	747
Depreciation and amortization	**3,087**	2,058	1,389	1,336	480	395	367	373	587	562
Income taxes	**—**	—	—	—	(57)	310	8	—	(63)	57
Deferred income taxes (recovery) on operating earnings	**(162)**	194	242	—	—	—	—	—	—	—
Gain (loss) on disposal of equipment (after deferred income taxes)	**(69)**	440	110	91	484	45	87	10	(45)	10
Net earnings (loss)	**(232)**	584	311	317	1,425	601	331	115	(317)	10
Purchase of equipment	**2,822**	13,650	1,701	6,949	6,016	1,454	703	450	836	574
Reduction of long-term debt	**2,861**	3,821	1,889	2,641	1,295	344	375	347	334	690
Dividends on preferred shares	**64**	64	64	67	70	70	124	15	70	70

OPERATING STATISTICS	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Mainline										
Passengers carried	**789**	627	371	364	302	230	180	127	121	114
Cargo carried (lbs.)	**18,732**	15,987	11,408	12,158	10,582	12,429	9,787	8,355	7,310	6,213
Passenger miles flown	**209,007**	168,068	95,426	92,909	77,877	56,813	43,347	34,073	33,828	31,984
Ton miles flown	**26,455**	21,834	13,097	12,939	11,035	9,202	6,961	5,409	5,194	5,092
Aircraft miles flown	**6,065**	5,501	3,191	3,732	3,217	2,844	2,426	1,992	1,993	2,173
Contract and charter										
Hercules aircraft miles flown	**1,992**	1,288	578	563	—	—	—	—	—	—
Other multi-engine aircraft miles flown	**851**	908	484	544	657	466	399	384	218	207
Single-engine aircraft miles flown	**—**	—	228	650	1,078	2,338	1,850	1,744	1,679	1,967
International passenger service										
Aircraft miles flown	**2,603**	1,750	1,117	670	744	842	726	—	—	—
DEW line operations										
Aircraft miles flown	**—**	—	—	—	—	—	—	—	—	304

RESOLUTE
INUVIK
CAMBRIDGE BAY
NORMAN WELLS
WRIGLEY
YELLOWKNIFE
FORT SIMPSON
FORT RESOLUTION
HAY RIVER
FORT SMITH
URANIUM CITY
RAINBOW LAKE
FORT CHIPEWYAN
PEACE RIVER
FORT McMURRAY
TERRACE
PRINCE RUPERT
SMITHERS
DAWSON CREEK
KITIMAT
PRINCE GEORGE
OCEAN FALLS
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TRAIL
SEATTLE
PACIFIC WESTERN AIRLINES
DOMESTIC SCHEDULED SERVICES
INTERNATIONAL CHARTER SERVICES

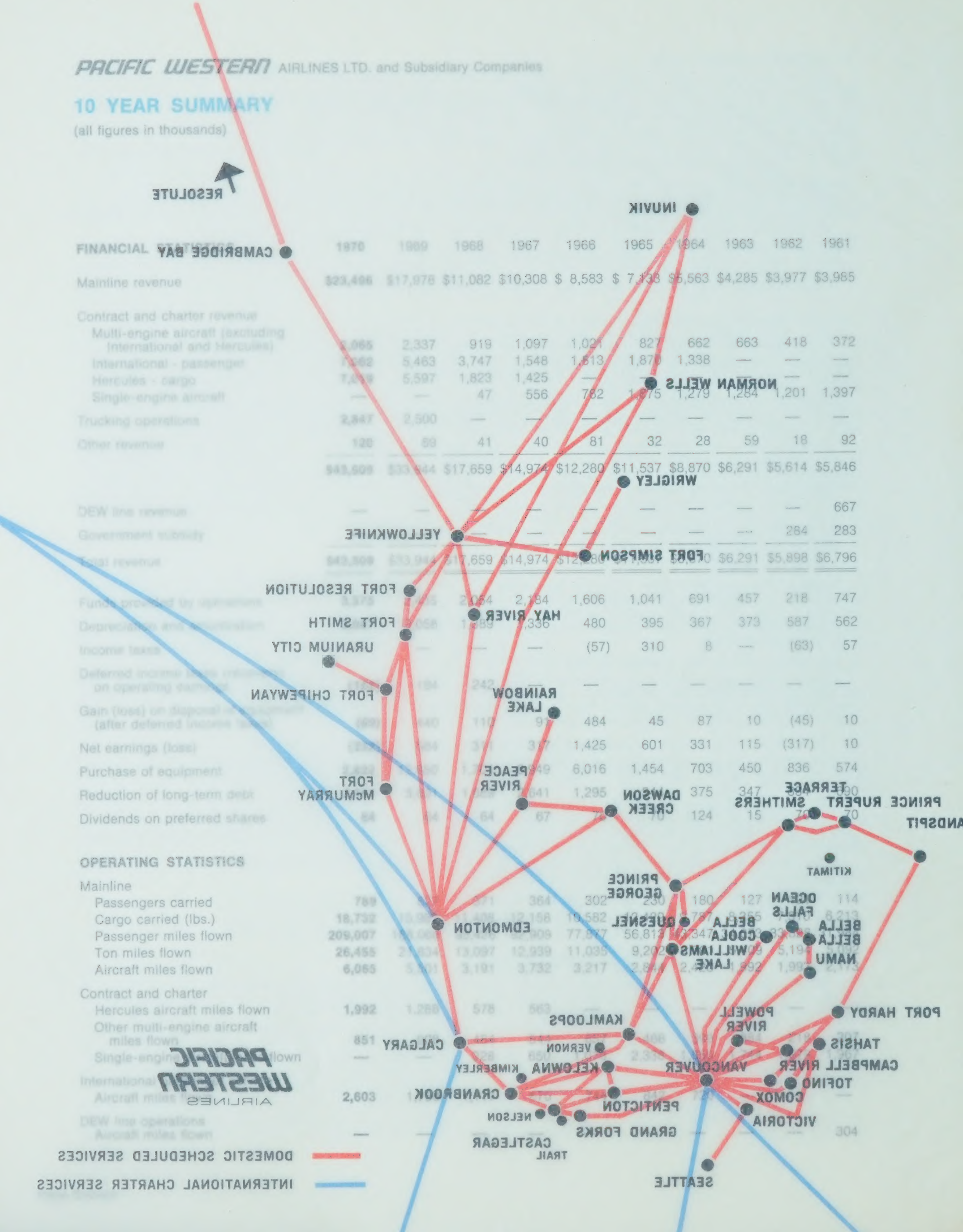
PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

10 YEAR SUMMARY

(all figures in thousands)

FINANCIAL STATISTICS	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Mainline revenue	$23,496	$17,976	$11,082	$10,308	$ 8,583	$ 7,138	$5,563	$4,285	$3,977	$3,985
Contract and charter revenue										
Multi-engine aircraft (excluding International and Hercules)	[illegible]	2,337	919	1,097	1,021	827	662	663	418	372
International - passenger	[illegible]	5,463	3,747	1,548	1,813	1,870	1,338	—	—	—
Hercules - cargo	[illegible]	5,597	1,823	1,425	—	[illegible]	[illegible]	[illegible]	—	—
Single-engine aircraft	—	—	47	556	782	1,875	1,279	1,284	1,201	1,397
Trucking operations	2,847	2,500	—	—	—	—	—	—	—	—
Other revenue	120	59	41	40	81	32	28	59	18	92
	$43,609	$33,944	$17,659	$14,974	$12,280	$11,537	$8,870	$6,291	$5,614	$5,846
DEW line revenue	—	—	—	—	—	—	—	—	—	667
Government subsidy	—	—	—	—	—	—	—	—	284	283
Total revenue	$43,609	$33,944	$17,659	$14,974	[illegible]	[illegible]	[illegible]	$6,291	$5,898	$6,796
Funds provided by operations	[illegible]	[illegible]	2,054	2,184	1,606	1,041	691	457	218	747
Depreciation and amortization	[illegible]	2,058	[illegible]	[illegible]	480	395	367	373	587	562
Income taxes	[illegible]	—	—	—	(57)	310	8	—	(63)	57
Deferred income taxes (reduction) on operating earnings	[illegible]	194	242	—	—	—	—	—	—	—
Gain (loss) on disposal of equipment (after deferred income taxes)	[illegible]	[illegible]	110	[illegible]	484	45	87	10	(45)	10
Net earnings (loss)	[illegible]	[illegible]	[illegible]	[illegible]	1,425	601	331	115	(317)	10
Purchase of equipment	[illegible]	[illegible]	[illegible]	[illegible]	6,016	1,454	703	450	836	574
Reduction of long-term debt	[illegible]	[illegible]	[illegible]	[illegible]	1,295	[illegible]	375	347	[illegible]	[illegible]
Dividends on preferred shares	64	64	64	67	[illegible]	70	124	15	[illegible]	70

OPERATING STATISTICS	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Mainline										
Passengers carried	789	[illegible]	[illegible]	364	302	230	180	127	[illegible]	114
Cargo carried (lbs.)	18,732	[illegible]	[illegible]	12,158	10,582	[illegible]	[illegible]	[illegible]	[illegible]	8,213
Passenger miles flown	209,007	[illegible]	[illegible]	[illegible]	77,877	56,813	[illegible]	[illegible]	[illegible]	[illegible]
Ton miles flown	26,455	[illegible]	13,097	12,939	11,035	9,202	[illegible]	[illegible]	5,194	5,092
Aircraft miles flown	6,065	[illegible]	3,191	3,732	3,217	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Contract and charter										
Hercules aircraft miles flown	1,992	[illegible]	578	563	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other multi-engine aircraft miles flown	851	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Single-engine aircraft miles flown	—	—	[illegible]	650	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
International										
Aircraft miles flown	2,603	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
DEW line operations										
Aircraft miles flown	—	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	304



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